EXHIBIT 7

Selected Accounting Principles

EXHIBIT 7 A

AU Section 411

The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*

(Supersedes SAS No. 5)

Source: SAS No. 69; SAS No. 91; SAS No. 93.

See section 9411 for interpretations of this section.

Effective for audits of financial statements for periods ending after March 15, 1992, unless otherwise indicated.

.01 An independent auditor's report contains an opinion as to whether the financial statements present fairly, in all material respects, an entity's financial position, results of operations, and cash flows in conformity with generally accepted accounting principles. An identification of the country of origin of those generally accepted accounting principles also is required (see section 508.08*h*). The purpose of this section is to explain the meaning of "present fairly . . . in conformity with generally accepted accounting principles." [As amended, effec-

financial statements in accordance with generally accepted auditing standards to state in the auditor's report whether the statements are presented in conformity with generally accepted accounting principles. The phrase "generally accepted accounting principles" is a technical accounting term that encompasses the conventions, rules, and procedures necessary to define accepted accounting practice at a particular time. It includes not only broad guidelines of general application, but also detailed practices and procedures. Those conventions, rules, and procedures provide a standard by which to measure financial presentations. [Revised, June 1993, to reflect conforming changes necessary due to the issuance of Statement of Position 93-3.]

.03 The independent auditor's judgment concerning the "fairness" of the overall presentation of financial statements should be applied within the framework of generally accepted accounting principles. Without that framework, the auditor would have no uniform standard for judging the presentation of financial position, results of operations, and cash flows in financial statements.

.04 The auditor's opinion that financial statements present fairly an entity's financial position, results of operations, and cash flows in conformity with generally accepted accounting principles should be based on his or her judgment as to whether (*a*) the accounting principles selected and applied have general acceptance; (*b*) the accounting principles are appropriate in the circumstances; (*c*) the financial statements, including the related notes, are informative

* Title amended, effective for reports issued or reissued on or after June 30, 2001, by Statement on Auditing Standards No. 93.

of matters that may affect their use, understanding, and interpretation (see section 431); (*d*) the information presented in the financial statements is classified and summarized in a reasonable manner, that is, neither too detailed nor too condensed (see section 431); and (*e*) the financial statements reflect the underlying transactions and events in a manner that presents the financial position, results of operations, and cash flows stated within a range of acceptable limits, that is, limits that are reasonable and practicable to attain in financial statements.[1]

.05 Independent auditors agree on the existence of a body of generally accepted accounting principles, and they are knowledgeable about these principles and in the determination of their general acceptance. Nevertheless, the determination that a particular accounting principle is generally accepted may be difficult because no single reference source exists for all such principles. The sources of established accounting principles that are generally accepted in the United States of America are—

a. Accounting principles promulgated by a body designated by the AICPA Council to establish such principles, pursuant to rule 203 [ET section 203.01] of the AICPA Code of Professional Conduct. Rule 203 [ET section 203.01] provides that an auditor should not express an unqualified opinion if the financial statements contain a material departure from such pronouncements unless, due to unusual circumstances, adherence to the pronouncements would make the statements misleading. Rule 203 [ET section 203.01] implies that application of officially established accounting principles almost always results in the fair presentation of financial position, results of operations, and cash flows, in conformity with generally accepted accounting principles. Nevertheless, rule 203

b. Pronouncements of bodies, composed of expert accountants, that deliberate accounting issues in public forums for the purpose of establishing accounting principles or describing existing accounting practices that are generally accepted, provided those pronouncements have been exposed for public comment and have been cleared by a body referred to in category (*a*).[2]

c. Pronouncements of bodies, organized by a body referred to in category (*a*) and composed of expert accountants, that deliberate accounting issues in public forums for the purpose of interpreting or establishing accounting principles or describing existing accounting practices that are generally accepted, or pronouncements referred to in category (*b*) that have been cleared by a body referred to in category (*a*) but have not been exposed for public comment.

d. Practices or pronouncements that are widely recognized as being generally accepted because they represent prevalent practice in a particular industry, or the knowledgeable application to specific circumstances of pronouncements that are generally accepted.

[Revised, October 2000, to reflect conforming changes necessary due to the issuance of Statement on Auditing Standards No. 93.]

[1] The concept of materiality is inherent in the auditor's judgments. That concept involves qualitative as well as quantitative judgments (see sections 150.04, 312.10, and 508.36).

[2] For purposes of this section, the word *cleared* means that a body referred to in subparagraphs (*a*) has indicated that it does not object to the issuance of the proposed pronouncement.

.06 Generally accepted accounting principles recognize the importance of reporting transactions and events in accordance with their substance. The auditor should consider whether the substance of transactions or events differs materially from their form.

.07 If the accounting treatment of a transaction or event is not specified by a pronouncement covered by rule 203 [ET section 203.01], the auditor should consider whether the accounting treatment is specified by another source of established accounting principles. If an established accounting principle from one or more sources in category (*b*), (*c*), or (*d*) is relevant to the circumstances, the auditor should be prepared to justify a conclusion that another treatment is generally accepted. If there is a conflict between accounting principles relevant to the circumstances from one or more sources in category (*b*), (*c*), or (*d*), the auditor should follow the treatment specified by the source in the higher category—for example, follow category (*b*) treatment over category (*c*)—or be prepared to justify a conclusion that a treatment specified by a source in the lower category better presents the substance of the transaction in the circumstances.

.08 The auditor should be aware that the accounting requirements adopted by regulatory agencies for reports filed with them may differ from generally accepted accounting principles in certain respects. Section 544, *Lack of Conformity With Generally Accepted Accounting Principles*, paragraph .04 and section 623, *Special Reports* provide guidance if the auditor is reporting on financial statements prepared in conformity with a comprehensive basis of accounting other than generally accepted accounting principles.

.09 Because of developments such as new legislation or the evolution of a new type of business transaction, there sometimes are no established account-

analogous transaction or event.

Application to Nongovernmental Entities

.10 For financial statements of entities other than governmental entities—[3]

a. Category (*a*), officially established accounting principles, consists of Financial Accounting Standards Board (FASB) Statements of Financial Accounting Standards and Interpretations, Accounting Principles Board (APB) Opinions, and AICPA Accounting Research Bulletins.

b. Category (*b*) consists of FASB Technical Bulletins and, if cleared[4] by the FASB, AICPA Industry Audit and Accounting Guides and AICPA Statements of Position.

c. Category (*c*) consists of AICPA Accounting Standards Executive Committee (AcSEC) Practice Bulletins that have been cleared[4] by

[3] Rules and interpretive releases of the Securities and Exchange Commission (SEC) have an authority similar to category (*a*) pronouncements for SEC registrants. In addition, the SEC staff issues Staff Accounting Bulletins that represent practices followed by the staff in administering SEC disclosure requirements. Also, the Introduction to the FASB's *EITF Abstracts* states that the Securities and Exchange Commission's Chief Accountant has said that the SEC staff would challenge any accounting that differs from a consensus of the FASB Emerging Issues Task Force, because the consensus position represents the best thinking on areas for which there are no specific standards.

[4] The auditor should assume that such pronouncements have been cleared by the FASB unless the pronouncement indicates otherwise.

the FASB and consensus positions of the FASB Emerging Issues Task Force.

d. Category (*d*) includes AICPA accounting interpretations and implementation guides ("Qs and As") published by the FASB staff, and practices that are widely recognized and prevalent either generally or in the industry.

.11 In the absence of a pronouncement covered by rule 203 [ET section 203.01] or another source of established accounting principles, the auditor of financial statements of entities other than governmental entities may consider other accounting literature, depending on its relevance in the circumstances. Other accounting literature includes, for example, FASB Statements of Financial Accounting Concepts; AICPA Issues Papers; International Accounting Standards of the International Accounting Standards Committee; Governmental Accounting Standards Board (GASB) Statements, Interpretations, and Technical Bulletins; Federal Accounting Standards Advisory Board (FASAB) Statements, Interpretations, and Technical Bulletins; pronouncements of other professional associations or regulatory agencies; Technical Information Service Inquiries and Replies included in AICPA Technical Practice Aids; and accounting textbooks, handbooks, and articles. The appropriateness of other accounting literature depends on its relevance to particular circumstances, the specificity of the guidance, and the general recognition of the issuer or author as an authority. For example, FASB Statements of Financial Accounting Concepts would normally be more influential than other sources in this category. [Revised, June 1993, to reflect conforming changes necessary due to the issuance of Statement of Position 93-3.]

a. Category (*a*), officially established accounting principles, consists of GASB Statements and Interpretations, as well as AICPA and FASB pronouncements specifically made applicable to state and local governmental entities by GASB Statements or Interpretations. GASB Statements and Interpretations are periodically incorporated in the *Codification of Governmental Accounting and Financial Reporting Standards.*

b. Category (*b*) consists of GASB Technical Bulletins and, if specifically made applicable to state and local governmental entities by the AICPA and cleared[6] by the GASB, AICPA Industry Audit and Accounting Guides and AICPA Statements of Position.

c. Category (*c*) consists of AICPA AcSEC Practice Bulletins if specifically made applicable to state and local governmental entities and cleared[6] by the GASB, as well as consensus positions of a group of accountants organized by the GASB that attempts to reach consensus positions on accounting issues applicable to state and local governmental entities.[7]

[5] State and local governmental entities include public benefit corporations and authorities; public employee retirement systems; and governmental utilities, hospitals and other health care providers, and colleges and universities.

[6] The auditor should assume that such pronouncements specifically made applicable to state and local governments have been cleared by the GASB unless the pronouncement indicates otherwise.

[7] As of the date of this section, the GASB had not organized such a group.

d. Category (*d*) includes implementation guides ("Qs and As") published by the GASB staff, as well as practices that are widely recognized and prevalent in state and local government.

.13 In the absence of a pronouncement covered by rule 203 [ET section 203.01] or another source of established accounting principles, the auditor of financial statements of state and local governmental entities may consider other accounting literature, depending on its relevance in the circumstances. Other accounting literature includes, for example, GASB Concepts Statements; the pronouncements referred to in categories (*a*) through (*d*) of paragraph .10 when not specifically made applicable to state and local governmental entities either by the GASB or by the organization issuing them; FASB Concepts Statements; FASAB Statements, Interpretations, Technical Bulletins, and Concepts Statements; AICPA Issues Papers; International Accounting Standards of the International Accounting Standards Committee; pronouncements of other professional associations or regulatory agencies; Technical Information Service Inquiries and Replies included in AICPA Technical Practice Aids; and accounting textbooks, handbooks, and articles. The appropriateness of other accounting literature depends on its relevance to particular circumstances, the specificity of the guidance, and the general recognition of the issuer or author as an authority. For example, GASB Concepts Statements would normally be more influential than other sources in this category. [Revised, June 1993, to reflect conforming changes necessary due to the issuance of Statement of Position 93-3.]

Application to Federal Governmental Entities

and Interpretations, as well as AICPA and FASB pronouncements specifically made applicable to federal governmental entities by FASAB Statements or Interpretations. FASAB Statements and Interpretations will be periodically incorporated in a publication by the FASAB.

b. Category (*b*) consists of FASAB Technical Bulletins and, if specifically made applicable to federal governmental entities by the AICPA and cleared by the FASAB, AICPA Industry Audit and Accounting Guides and AICPA Statements of Position.[9]

c. Category (*c*) consists of AICPA AcSEC Practice Bulletins if specifically made applicable to federal governmental entities and cleared by the FASAB, as well as Technical Releases of the Accounting and Auditing Policy Committee of the FASAB.

d. Category (*d*) includes implementation guides published by the FASAB staff, as well as practices that are widely recognized and prevalent in the federal government.

[Paragraph added, effective April 2000, by Statement on Auditing Standards No. 91.]

[8] Federal Accounting Standards Advisory Board (FASAB) Concepts Statement No. 2, *Entity and Display*, defines federal governmental entities. [Footnote added, effective April 2000, by Statement on Auditing Standards No. 91.]

[9] The auditor should assume that such pronouncements specifically made applicable to federal governmental entities have been cleared by the FASAB, unless the pronouncement indicates otherwise. [Footnote added, effective April 2000, by Statement on Auditing Standards No. 91.]

.15 In the absence of a pronouncement covered by rule 203 [ET section 203.01] or another source of established accounting principles, the auditor of financial statements of a federal governmental entity may consider other accounting literature, depending on its relevance in the circumstances. Other accounting literature includes, for example, FASAB Concepts Statements; the pronouncements referred to in categories (*a*) through (*d*) of paragraph .10 when not specifically made applicable to federal governmental entities by the FASAB; FASB Concepts Statements; GASB Statements, Interpretations, Technical Bulletins, and Concepts Statements; AICPA Issues Papers; International Accounting Standards of the International Accounting Standards Committee; pronouncements of other professional associations or regulatory agencies; Technical Information Service Inquiries and Replies included in AICPA Technical Practice Aids; and accounting textbooks, handbooks, and articles. The appropriateness of other accounting literature depends on its relevance to particular circumstances, the specificity of the guidance, and the general recognition of the issuer or author as an authority. For example, FASAB Concepts Statements would normally be more influential than other sources in this category. [Paragraph added, effective April 2000, by Statement on Auditing Standards No. 91.]

Effective Date

.16 This section is effective for audits of financial statements for periods ending after March 15, 1992. [Paragraph renumbered by the issuance of Statement on Auditing Standards No. 91, April 2000.]

of paragraphs .10 and .12 had equal authoritative standing prior to the issuance of this section. An entity following an accounting treatment in category (*c*) or (*d*) as of March 15, 1992, need not change to an accounting treatment in a category (*b*) or category (*c*) pronouncement whose effective date is before March 15, 1992. For example, a nongovernmental entity that followed a prevalent industry practice (category (*d*)) as of March 15, 1992, need not change to an accounting treatment included in a pronouncement in category (*b*) or (*c*) (for example, an accounting principle in a cleared AICPA Statement of Position or AcSEC Practice Bulletin) whose effective date is before March 15, 1992. For pronouncements whose effective date is subsequent to March 15, 1992, and for entities initially applying an accounting principle after March 15, 1992 (except for FASB Emerging Issues Task Force consensus positions issued before March 16, 1992, which become effective in the hierarchy for initial application of an accounting principle after March 15, 1993), the auditor should follow the applicable hierarchy established by paragraphs .10 and .12 in determining whether an entity's financial statements are fairly presented in conformity with generally accepted accounting principles. [Paragraph renumbered by the issuance of Statement on Auditing Standards No. 91, April 2000.]

.18 **GAAP Hierarchy Summary***

Nongovernmental Entities	*State an… …ernments*	*Federal Governmental Entities*
	Establishe… …g Principles	
.10*a* FASB Statements and Interpretations, APB Opinions, and AICPA Accounting Research Bulletins	.12*a* GASB State… AICPA and … applicable t… by a GASB … …terpretations, plus …uncements if made local governments …r Interpretation	.14*a* FASAB Statements and Interpretations plus AICPA and FASB pronouncements if made applicable to federal governmental entities by a FASAB Statement or Interpretation
.10*b* FASB Technical Bulletins, AICPA Industry Audit and Accounting Guides, and AICPA Statements of Position	.12*b* GASB Techn… ing pronoun… applicable t… by the AICP… Accounting … of Position …ins, and the following specifically made local governments …ndustry Audit and AICPA Statements	.14*b* FASAB Technical Bulletins and the following pronouncements if specifically made applicable to federal governmental entities by the AICPA and cleared by the FASAB: AICPA Industry Audit and Accounting Guides and AICPA Statements of Position
.10*c* Consensus positions of the FASB Emerging Issues Task Force and AICPA Practice Bulletins	.12*c* Consensus … ging Issues T… Bulletins if … state and loc… the GASB Emer- …nd AICPA Practice made applicable to …ents by the AICPA	.14*c* AICPA AcSEC Practice Bulletins if specifically made applicable to federal governmental entities and cleared by the FASAB and Technical Releases of the Accounting and Auditing Policy Committee of the FASAB
.10*d* AICPA accounting interpretations, "Qs and As" published by the FASB staff, as well as industry practices widely recognized and prevalent	.12*d* "Qs and As" as well as recognized a… …y the GASB staff, practices widely …t	.14*d* Implementation guides published by the FASAB staff and practices that are widely recognized and prevalent in the federal government

(continued)

* Paragraph references correspond to the paragraphs of this section that d… …categories of the GAAP hierarchy.

† As of the date of this section, the GASB had not organized such a group.

EXHIBIT 7 B

AU Section 9411

The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles: Auditing Interpretations of Section 411*

[1.] The Auditor's Consideration of Accounting Principles Set Forth in Industry Audit and Accounting Guides

[.01–.04] [Deleted September, 1984.]

[2.] The Auditor's Consideration of Accounting Principles Promulgated by the Governmental Accounting Standards Board

[.05–.10] [Withdrawn April, 1988 by SAS No. 52.]

3. The Auditor's Consideration of Management's Adoption of Accounting Principles for New Transactions or Events

ing a judgment about the general acceptance and appropriateness in the circumstances of the accounting principles selected by management?

.12 *Interpretation*—When an entity adopts accounting principles in response to new types of transactions or events that are material and for which there are no established sources of accounting principles, the auditor should understand the basis used by management to select the particular accounting principle. In assessing the appropriateness of the accounting principle selected by management, the auditor may consider whether there are analogous transactions or events for which there are established accounting principles. If the auditor has identified analogous transactions or events for which there are established accounting principles, he or she should follow the guidance in section 411, *The Meaning of* Present Fairly in Conformity With Generally Accepted Accounting Principles, paragraph .09. Section 411.09 states that "there sometimes are no established accounting principles for reporting a specific transaction or event. In those instances, it might be possible to report the event or transaction on the basis of its substance by selecting an accounting principle that appears appropriate when applied in a manner similar to the application of an established principle to an analogous transaction or event."

.13 In addition, the auditor also may consider the appropriateness of other accounting literature, as discussed in section 411.11 for nongovernmental entities or section 411.13 for governmental entities. The appropriateness of

* Title of section 411 amended, effective for reports issued or reissued on or after June 30, 2001, by Statement on Auditing Standards No. 93.

other accounting literature depends on its relevance to particular circumstances, the specificity of the guidance, and the general recognition of the issuer or author as an authority.

.14 Section 411.04 recognizes that an auditor's opinion that financial statements are presented fairly in conformity with generally accepted accounting principles should be based on his or her judgment as to whether the accounting principles selected and applied have general acceptance and are appropriate in the circumstances.

.15 Furthermore, in engagements where section 380, *Communication With Audit Committees*, applies, the auditor should determine that the audit committee (or its equivalent) is informed about the initial selection of and changes in significant accounting policies or their application. The auditor should also determine that the audit committee (or its equivalent) is informed about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

[Issue Date: March, 1995; Revised: October, 2000.]

[The next page is 731.]

EXHIBIT 7 C

other accounting literature depends on its relevance to particular circumstances, the specificity of the guidance, and the general recognition of the issuer or author as an authority.

.14 Section 411.04 recognizes that an auditor's opinion that financial statements are presented fairly in conformity with generally accepted accounting principles should be based on his or her judgment as to whether the accounting principles selected and applied have general acceptance and are appropriate in the circumstances.

.15 Furthermore, in engagements where section 380, *Communication With Audit Committees*, applies, the auditor should determine that the audit committee (or its equivalent) is informed about the initial selection of and changes in significant accounting policies or their application. The auditor should also determine that the audit committee (or its equivalent) is informed about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

[Issue Date: March, 1995; Revised: October, 2000.]

[The next page is 731.]

AU Section 420

Consistency of Application of Generally Accepted Accounting Principles

Source: SAS No. 1, section 420; SAS No. 43; SAS No. 88.

See section 9420 for interpretations of this section.

Issue date, unless otherwise indicated: November, 1972.

.01 The second standard of reporting (referred to herein as the consistency standard) is:

> The report shall identify those circumstances in which such principles have not been consistently observed in the current period in relation to the preceding period.

.02 The objective of the consistency standard is to ensure that if comparability of financial statements between periods has been materially affected by changes in accounting principles, there will be appropriate reporting by the independent auditor regarding such changes.[1] It is also implicit in the objec...

... changes in accounting principles and that such principles have been consistently applied between or among periods because either (*a*) no change in accounting principles has occurred, or (*b*) there has been a change in accounting principles or in the method of their application, but the effect of the change on the comparability of the financial statements is not material. In these cases, the auditor would not refer to consistency in his report.

.03 Proper application of the consistency standard by the independent auditor requires an understanding of the relationship of consistency to comparability. Although lack of consistency may cause lack of comparability, other factors unrelated to consistency may also cause lack of comparability.[2]

.04 A comparison of the financial statements of an entity between years may be affected by (a) accounting changes, (b) an error in previously issued financial statements, (c) changes in classification, and (d) events or transactions substantially different from those accounted for in previously issued statements. Accounting change, as defined in APB Opinion No. 20 [AC section A06], means a change in (1) an accounting principle, (2) an accounting estimate, or (3) the reporting entity (which is a special type of change in accounting principle).

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[1] The appropriate form of reporting on a lack of consistency is discussed in section 508, *Reports on Audited Financial Statements*, paragraphs 16 through 18. [Footnote added to reflect the conforming changes necessary due to the issuance of Statement on Auditing Standards Nos. 53 through 62.]

[2] For a discussion of comparability of financial statements of a single enterprise, see paragraphs 111 through 119 of FASB Statement of Financial Accounting Concepts No. 2, "Qualitative Characteristics of Accounting Information." [Footnote renumbered to reflect the conforming changes necessary due to the issuance of Statement on Auditing Standards Nos. 53 through 62. Revised, June, 1993, to reflect conforming changes necessary due to the issuance of Statement of Position 93-3.]

.05 Changes in accounting principle having a material effect on the financial statements require recognition in the independent auditor's report through the addition of an explanatory paragraph (following the opinion paragraph). Other factors affecting comparability in financial statements may require disclosure, but they would not ordinarily be commented upon in the independent auditor's report.

Accounting Changes Affecting Consistency

Change in Accounting Principle

.06 "A change in accounting principle results from adoption of a generally accepted accounting principle different from the one used previously for reporting purposes. The term *accounting principle* includes not only accounting principles and practices but also the methods of applying them."[3] A change in accounting principle includes, for example, a change from the straight-line method to the declining balance method of depreciation for all assets in a class or for all newly acquired assets in a class. The consistency standard is applicable to this type of change and requires recognition in the auditor's report through the addition of an explanatory paragraph. [As modified, effective January 1, 1975, by FASB Statement No. 2 (AC section R50).]

Change in the Reporting Entity

.07 A change in the reporting entity is a special type of change in accounting principle which results in financial statements that, in effect, are those of

b. Changing specific subsidiaries comprising the group of companies for which consolidated statements are presented.

c. Changing the companies included in combined financial statements.

A business combination accounted for by the pooling of interests method also results in a different reporting entity.[4] [As amended, effective December 1999, by Statement on Auditing Standards No. 88.]

.08 A change in the reporting entity resulting from a transaction or event, such as a pooling of interests, or the creation, cessation, or complete or partial purchase or disposition of a subsidiary or other business unit, does not require that an explanatory paragraph about consistency be included in the auditor's report. A change in the reporting entity that does not result from a transaction or event requires recognition in the auditor's report through inclusion of an explanatory paragraph. [Paragraph added, effective December 1999, by Statement on Auditing Standards No. 88.]

.09 When companies have merged or combined in a pooling of interests, appropriate effect of the pooling should be given in the presentation of financial position, results of operations, cash flows, and other historical financial data of the continuing business for the year in which the combination is consummated

[3] Accounting Principles Board Opinion No. 20, paragraph 7 [AC section A06.105]. [Footnote renumbered to reflect the conforming changes necessary due to the issuance of Statement on Auditing Standards Nos. 53 through 62.]

[4] APB Opinion 20, paragraph .12. [Footnote added, effective December 1999, by Statement on Auditing Standards No. 88.]

and, in comparative financial statements, for years prior to the year of pooling, as described in APB Opinion No. 16, *Business Combinations* [AC section B50]. If prior year financial statements, presented in comparison with current year financial statements, are not restated to give appropriate recognition to a pooling of interests, a departure from generally accepted accounting principles has occurred which necessitates that the auditor express a qualified or an adverse opinion as discussed in section 508, *Reports on Audited Financial Statements*, paragraphs .35 through .40. Since the inconsistency arises not from a change in the application of an accounting principle in the current year, but from the lack of such application to prior years, an explanatory paragraph (in addition to the modification relating to the departure from generally accepted accounting principles) is not required. [Paragraph added to reflect the conforming changes necessary due to the issuance of Statement on Auditing Standards Nos. 53 through 62. Paragraph renumbered and amended, effective December 1999, by Statement on Auditing Standards No. 88.]

[.10] [Paragraph added to reflect the conforming changes necessary due to the issuance of Statement on Auditing Standards Nos. 53 through 62. Paragraph renumbered and deleted by the issuance of Statement on Auditing Standards No. 88, December 1999.]

[.11] [Paragraph renumbered to reflect the conforming changes necessary due to the issuance of Statement on Auditing Standards Nos. 53 through 62. Paragraph subsequently renumbered and deleted by the issuance of Statement on Auditing Standards No. 88, December 1999.]

application of a principle, is a correction of an error. Although this type of change in accounting principle should be accounted for as the correction of an error,[5] the change requires recognition in the auditor's report through the addition of an explanatory paragraph. [Paragraph renumbered to reflect the conforming changes necessary due to the issuance of Statement on Auditing Standards Nos. 53 through 62. Paragraph subsequently renumbered by the issuance of Statement on Auditing Standards No. 88, December 1999.][6]

Change in Principle Inseparable From Change in Estimate

.13 The effect of a change in accounting principle may be inseparable from the effect of a change in estimate.[7] Although the accounting for such a change

[5] See paragraphs 13, 36, and 37 of Accounting Principles Board Opinion No. 20 [AC section A35.104–.105]. [Footnote renumbered to reflect the conforming changes necessary due to the issuance of Statement on Auditing Standards Nos. 53 through 62. Footnote subsequently renumbered by the issuance of Statement on Auditing Standards No. 88, December 1999.]

[6] [Footnote deleted to reflect the conforming changes necessary due to the issuance of Statement on Auditing Standards Nos. 53 through 62. Footnote renumbered by the issuance of Statement on Auditing Standards No. 88, December 1999.]

[7] See paragraph 11 of Accounting Principles Board Opinion No. 20 [AC section A06.110]. [Footnote renumbered to reflect the conforming changes necessary due to the issuance of Statement on Auditing Standards Nos. 53 through 62. Footnote subsequently renumbered by the issuance of Statement on Auditing Standards No. 88, December 1999.]

is the same as that accorded a change only in estimate, a change in principle is involved. Accordingly, this type of change requires recognition in the independent auditor's report through the addition of an explanatory paragraph. [Paragraph renumbered to reflect the conforming changes necessary due to the issuance of Statement on Auditing Standards Nos. 53 through 62. Paragraph subsequently renumbered by the issuance of Statement on Auditing Standards No. 88, December 1999.]

Changes in Presentation of Cash Flows

.14 For purposes of presenting cash flows, FASB Statement No. 95, *Statement of Cash Flows* [AC section C25], states that, "An enterprise shall disclose its policy for determining which items are treated as cash equivalents. Any change to that policy is a change in accounting principle that shall be effected by restating financial statements for earlier years presented for comparative purposes." Accordingly, this type of change in presentation of cash flows requires recognition in the independent auditor's report through the addition of an explanatory paragraph. [Paragraph added to reflect the conforming changes necessary due to the issuance of Statement on Auditing Standards Nos. 53 through 62. Paragraph renumbered by the issuance of Statement on Auditing Standards No. 88, December 1999.]

Changes Not Affecting Consistency

Change in Accounting Estimate

statements. Accounting estimates change as new events occur and as additional experience and information are acquired. This type of accounting change is required by altered conditions that affect comparability but do not involve the consistency standard. The independent auditor, in addition to satisfying himself with respect to the conditions giving rise to the change in accounting estimate, should satisfy himself that the change does not include the effect of a change in accounting principle. Provided he is so satisfied, he need not comment on the change in his report.[8] However, an accounting change of this type having a material effect on the financial statements may require disclosure in a note to the financial statements.[9] [Paragraph renumbered to reflect the conforming changes necessary due to the issuance of Statement on Auditing Standards Nos. 53 through 62. Paragraph subsequently renumbered by the issuance of Statement on Auditing Standards No. 88, December 1999.]

Error Correction Not Involving Principle

.16 Correction of an error in previously issued financial statements resulting from mathematical mistakes, oversight, or misuse of facts that existed

[8] [Footnote deleted. Footnote renumbered to reflect the conforming changes necessary due to the issuance of Statement on Auditing Standards Nos. 53 through 62. Footnote subsequently renumbered by the issuance of Statement on Auditing Standards No. 88, December 1999.]

[9] See paragraph 33 of Accounting Principles Board Opinion No. 20 [AC section A06.132]. [Footnote renumbered to reflect the conforming changes necessary due to the issuance of Statement on Auditing Standards Nos. 53 through 62. Footnote subsequently renumbered by the issuance of Statement on Auditing Standards No. 88, December 1999.]

at the time the financial statements were originally prepared does not involve the consistency standard if no element of accounting principles or their application is included. Accordingly, the independent auditor need not recognize the correction in his report.[10] [Paragraph renumbered to reflect the conforming changes necessary due to the issuance of Statement on Auditing Standards Nos. 53 through 62. Paragraph subsequently renumbered by the issuance of Statement on Auditing Standards No. 88, December 1999.]

Changes in Classification and Reclassifications

.17 Classifications in the current financial statements may be different from classifications in the prior year's financial statements. Although changes in classification are usually not of sufficient importance to necessitate disclosure, material changes in classification should be indicated and explained in the financial statements or notes. These changes and material reclassifications made in previously issued financial statements to enhance comparability with current financial statements ordinarily would not need to be referred to in the independent auditor's report. [Paragraph renumbered to reflect the conforming changes necessary due to the issuance of Statement on Auditing Standards Nos. 53 through 62. Paragraph subsequently renumbered by the issuance of Statement on Auditing Standards No. 88, December 1999.]

Variations in Presentation of Statement of Changes in Financial Position

[.18] [Paragraph renumbered and deleted to reflect the conforming changes necessary due to the issuance of Statement on Auditing Standards

Substantially Different Transactions or Events

.19 Accounting principles are adopted when events or transactions first become material in their effect. Such adoption, as well as modification or adoption of an accounting principle necessitated by transactions or events that are clearly different in substance from those previously occurring, do not involve the consistency standard although disclosure in the notes to the financial statements may be required. [Paragraph renumbered by the issuance of Statement on Auditing Standards No. 43, August 1982. Paragraph subsequently renumbered to reflect the conforming changes necessary due to the issuance of Statement on Auditing Standards Nos. 53 through 62. Paragraph subsequently renumbered by the issuance of Statement on Auditing Standards No. 88, December 1999.]

Changes Expected to Have a Material Future Effect

.20 If an accounting change has no material effect on the financial statements in the current year, but the change is reasonably certain to have substantial effect in later years, the change should be disclosed in the notes to

[10] If the independent auditor had previously reported on the financial statements containing the error, he should refer to section 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*. [Footnote renumbered to reflect the conforming changes necessary due to the issuance of Statement on Auditing Standards Nos. 53 through 62. Footnote subsequently renumbered by the issuance of Statement on Auditing Standards No. 88, December 1999.]

the financial statements whenever the statements of the period of change are presented, but the independent auditor need not recognize the change in his report. [Paragraph renumbered by the issuance of Statement on Auditing Standards No. 43, August 1982. Paragraph subsequently renumbered to reflect the conforming changes necessary due to the issuance of Statement on Auditing Standards Nos. 53 through 62. Paragraph subsequently renumbered by the issuance of Statement on Auditing Standards No. 88, December 1999.]

Disclosure of Changes Not Affecting Consistency

.21 While the matters do not require the addition of an explanatory paragraph about consistency in the independent auditor's report, the auditor should qualify his opinion as to the disclosure matter if necessary disclosures are not made. (See section 431.) [Paragraph renumbered by the issuance of Statement on Auditing Standards No. 43, August 1982. Paragraph subsequently renumbered to reflect the conforming changes necessary due to the issuance of Statement on Auditing Standards Nos. 53 through 62. Paragraph subsequently renumbered by the issuance of Statement on Auditing Standards No. 88, December 1999.]

Periods to Which the Consistency Standard Relates

.22 When the independent auditor reports only on the current period, he should obtain sufficient, competent evidential matter about consistency of the application of accounting principles, regardless of whether financial statements for the preceding period are presented. (The term "current period" [illegible]

with the year prior thereto if such prior year is presented with the financial statements being reported upon. [Paragraph renumbered by the issuance of Statement on Auditing Standards No. 43, August 1982. Paragraph subsequently renumbered to reflect the conforming changes necessary due to the issuance of Statement on Auditing Standards Nos. 53 through 62. Paragraph subsequently renumbered by the issuance of Statement on Auditing Standards No. 88, December 1999.]

Consistency Expression

[.23] [Paragraph renumbered and deleted to reflect the conforming changes necessary due to the issuance of Statement on Auditing Standards Nos. 53 through 62. Paragraph subsequently renumbered by the issuance of Statement on Auditing Standards No. 88, December 1999.]

First Year Audits

.24 When the independent auditor has not audited the financial statements of a company for the preceding year, he should adopt procedures that are practicable and reasonable in the circumstances to assure himself that the accounting principles employed are consistent between the current and the preceding year. Where adequate records have been maintained by the client, it is usually practicable and reasonable to extend auditing procedures to gather sufficient competent evidential matter about consistency. [Paragraph renumbered by the issuance of Statement on Auditing Standards No. 88, December 1999.]

.25 Inadequate financial records or limitations imposed by the client may preclude the independent auditor from obtaining sufficient, competent evidential matter about the consistent application of accounting principles between the current and the prior year, as well as to the amounts of assets or liabilities at the beginning of the current year. Where such amounts could materially affect current operating results, the independent auditor would also be unable to express an opinion on the current year's results of operations and cash flows. [Paragraph renumbered by the issuance of Statement on Auditing Standards No. 88, December 1999.]

EXHIBIT 7 D

APB Opinion No. 20
Accounting Changes

STATUS

Issued: July 1971

Effective Date: For fiscal years beginning after July 31, 1971

Affects: Amends ARB 43, Chapter 2A, paragraph 3
Amends ARB 44 (Rev.), paragraph 3
Amends APB 9, paragraphs 18 and 20
Supersedes APB 9, paragraph 25
Amends APB 15, paragraph 13
Amends APS 4, paragraph 199

Affected by: Paragraph 3 amended by FAS 71 and FAS 95
Paragraphs 4, 7, and 9 amended by FAS 111
Paragraph 12 amended by FAS 141
Paragraph 16 amended by FAS 111
Paragraphs 20 and 21 amended by FAS 128
Paragraph 27 amended by FAS 73
Paragraph 34 amended by FAS 58
Paragraph 35 amended by FAS 141
Paragraphs 42 through 44 and 46 through 48 amended by FAS 128
Footnote 2 superseded by FAS 111
Footnote 4 amended by FAS 111
Footnote 5 superseded by FAS 32 and FAS 111
Footnote 9 superseded by FAS 16

Other Interpretive Pronouncements: AIN-APB 20, Interpretations No. 1 and 2 (Superseded by FAS 128)
FIN 1
FIN 20
FTB 87-1 (Superseded by FAS 106)

Issues Discussed by FASB Emerging Issues Task Force (EITF)

Affects: No EITF Issues

Interpreted by: Paragraphs 7 and 16 interpreted by EITF Issue No. 84-9

Related Issues: EITF Issue No. 84-10 and Topics No. D-1 and D-74

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Paragraph 27 amended by FAS 73
Paragraph 34 amended by FAS 58
Paragraphs 42 through 44 and 46 through 48 amended by FAS 128
Footnote 2 superseded by FAS 111
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Footnote 5 superseded by FAS 32 and FAS 111
Footnote 9 superseded by FAS 16

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Related Issues: EITF Issue No. 84-10 and Topics No. D-1 and D-74

APB Opinion No. 20

Accounting Changes

July 1971

INTRODUCTION

1. A change in accounting by a reporting entity may significantly affect the presentation of both financial position and results of operations for an accounting period and the trends shown in comparative financial statements and historical summaries. The change should therefore be reported in a manner which will facilitate analysis and understanding of the financial statements.

Scope of Opinion

2. This Opinion defines various types of accounting changes and establishes guides for determining the manner of reporting each type. It also covers reporting a correction of an error in previously issued financial statements.

3. The Opinion applies to financial statements which purport to present financial position, changes in financial position, and results of operations in conformity with generally accepted accounting principles. The guides in this Opinion also may be appropriate in presenting financial information in other forms or for special purposes. Companies in regulated industries may apply generally accepted accounting principles differently from nonregulated companies because of the effect of the rate-making process. This Opinion should therefore be applied to regulated companies in accordance with the provisions of the Addendum to APB Opinion No. 2.

4. This Opinion does not change the policy of the Board that its Opinions, unless otherwise stated, are not intended to be retroactive. Each published Opinion specifies its effective date and the manner of reporting a change to conform with the conclusions of the Opinion. An industry audit guide prepared by a committee of the American Institute of Certified Public Accountants may also prescribe the manner of reporting a change in accounting principle. Accordingly, the provisions of this Opinion do not apply to changes made in conformity with such pronouncements issued in the past or in the future.

5. This Opinion reaffirms the provisions of previous Board Opinions that prescribe the manner of reporting a change in accounting principle, an accounting estimate, or

reporting entity except for the following paragraphs of Accounting Research Bulletins (ARB) or Opinions of the Accounting Principles Board (APB):[1]

a. Paragraph 3 of Chapter 2, Section A, *Comparative Financial Statements,* of ARB No. 43 is amended to insert a cross reference to this Opinion. This Opinion identifies numerous accounting changes and specifies the manner of reporting each change.
b. Paragraph 20 of APB Opinion No. 9, *Reporting the Results of Operations,* and paragraph 13 of APB Opinion No. 15, *Earnings per Share,* are amended. This Opinion specifies an additional element in the presentation of the income statement.
c. Paragraph 25 of APB Opinion No. 9 is superseded. Although the conclusion of that paragraph is not modified, this Opinion deals more completely with accounting changes.

TYPES OF ACCOUNTING CHANGES

6. The term *accounting change* in this Opinion means a change in (a) an accounting principle, (b) an accounting estimate, or (c) the reporting entity (which is a special type of change in accounting principle classified separately for purposes of this Opinion). The correction of an error in previously issued financial statements is not deemed to be an accounting change.

Change in Accounting Principle

7. A change in accounting principle results from adoption of a generally accepted accounting principle different from the one used previously for reporting purposes. The term *accounting principle* includes "not only accounting principles and practices but also the methods of applying them."[2]

8. A characteristic of a change in accounting principle is that it concerns a choice from among two or more generally accepted accounting principles. However, neither (a) initial adoption of an accounting principle in recognition of events or transactions occurring for the first time or that previously were immaterial in their effect nor (b) adoption or modification of an accounting principle necessitated by transactions or

[1]This Opinion amends APB Statement No. 4, *Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises,* to the extent that it relates to reporting accounting changes.

[2]Statement on Auditing Procedure No. 33, *Auditing Standards and Procedures,* chapter 7, paragraph 2.

events that are clearly different in substance from those previously occurring is a change in accounting principle.

9. Changes in accounting principle are numerous and varied. They include, for example, a change in the method of inventory pricing, such as from the last in, first out (LIFO) method to the first in, first out (FIFO) method; a change in depreciation method for previously recorded assets, such as from the double declining balance method to the straight line method;[3] a change in the method of accounting for long-term construction-type contracts, such as from the completed contract method to the percentage of completion method; and a change in accounting for research and development expenditures, such as from recording as expense when incurred to deferring and amortizing the costs. (Paragraph 11 covers a change in accounting principle to effect a change in estimate.)

Change in Accounting Estimate

10. Changes in estimates used in accounting are necessary consequences of periodic presentations of financial statements. Preparing financial statements requires estimating the effects of future events. Examples of items for which estimates are necessary are uncollectible receivables, inventory obsolescence, service lives and salvage values of depreciable assets, warranty costs, periods benefited by a deferred cost, and recoverable mineral reserves. Future events and their effects cannot be perceived with certainty; estimating, therefore, requires the exercise of judgment. Thus accounting estimates change as new events occur, as more experience is acquired, or as additional information is obtained.

11. *Change in estimate effected by a change in accounting principle.* Distinguishing between a change in an accounting principle and a change in an accounting estimate is sometimes difficult. For example, a company may change from deferring and amortizing a cost to recording it as an expense when incurred because future benefits of the cost have become doubtful. The new accounting method is adopted, therefore, in partial or complete recognition of the change in estimated future benefits. The effect of the change in accounting principle is inseparable from the effect of the change in accounting estimate. Changes of this type are often related to the continuing process of obtaining additional information and revising estimates and are therefore considered as changes in estimates for purposes of applying this Opinion.

[3] A change to the straight line method at a specific point in the service life of an asset may be planned at the time the accelerated depreciation method is adopted to fully depreciate the cost over the estimated life of the asset. Consistent application of such a policy does not constitute a change in accounting principle for purposes of applying this Opinion. (Paragraph 5-d of APB Opinion No. 12 covers disclosure of methods of depreciation.)

Change in the Reporting Entity

12. One special type of change in accounting principle results in financial statements which, in effect, are those of a different reporting entity. This type is limited mainly to (a) presenting consolidated or combined statements in place of statements of individual companies, (b) changing specific subsidiaries comprising the group of companies for which consolidated financial statements are presented, and (c) changing the companies included in combined financial statements. A different group of companies comprise the reporting entity after each change. A business combination accounted for by the pooling of interests method also results in a different reporting entity.

Correction of an Error in Previously Issued Financial Statements

13. Reporting a correction of an error in previously issued financial statements concerns factors similar to those relating to reporting an accounting change and is therefore discussed in this Opinion.[4] Errors in financial statements result from mathematical mistakes, mistakes in the application of accounting principles, or oversight or misuse of facts that existed at the time the financial statements were prepared. In contrast, a change in accounting estimate results from new information or subsequent developments and accordingly from better insight or improved judgment. Thus, an error is distinguishable from a change in estimate. A change from an accounting principle that is not generally accepted to one that is generally accepted is a correction of an error for purposes of applying this Opinion.

VIEWS ON REPORTING CHANGES IN ACCOUNTING PRINCIPLES

14. An essential question in reporting a change in accounting principle is whether to restate the financial statements currently presented for prior periods to show the new accounting principle applied retroactively. A summary of differing views bearing on that question is:

a. Accounting principles should be applied consistently for all periods presented in comparative financial statements. Using different accounting principles for similar items in financial statements presented for various periods may result in misinterpretations of earnings trends and other analytical data that are based on

[4] Statement on Auditing Procedure No. 41, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*, discusses other aspects of errors in previously issued financial statements.

comparisons. The same accounting principle therefore should be used in presenting financial statements of current and past periods. Accordingly, financial statements presented for prior periods in current reports should be restated if a reporting entity changes an accounting principle.

b. Restating financial statements of prior periods may dilute public confidence in financial statements and may confuse those who use them. Financial statements previously prepared on the basis of accounting principles generally accepted at the time the statements were issued should therefore be considered final except for changes in the reporting entity or corrections of errors.

c. Restating financial statements of prior periods for some types of changes requires considerable effort and is sometimes impossible. For example, adequate information may not be available to restate financial statements of prior periods if the method of recording revenue from long-term contracts is changed from the completed contract method to the percentage of completion method.

d. Restating financial statements of prior periods for some changes requires assumptions that may furnish results different from what they would have been had the newly adopted principle been used in prior periods. For example, if the method of pricing inventory is changed from the FIFO method to the LIFO method, it may be assumed that the ending inventory of the immediately preceding period is also the beginning inventory of the current period for the LIFO method. The retroactive effects under that assumption may be different from the effects of assuming that the LIFO method was adopted at an earlier date.

OPINION

Justification for a Change in Accounting Principle

15. The Board concludes that in the preparation of financial statements there is a presumption that an accounting principle once adopted should not be changed in accounting for events and transactions of a similar type. Consistent use of accounting principles from one accounting period to another enhances the utility of financial statements to users by facilitating analysis and understanding of comparative accounting data.

16. The presumption that an entity should not change an accounting principle may be overcome only if the enterprise justifies the use of an alternative acceptable accounting principle on the basis that it is preferable. However, a method of accounting that was previously adopted for a type of transaction or event which is being terminated or which was a single, nonrecurring event in the past should not be changed. For example, the method of accounting should not be changed for a tax or

tax credit which is being discontinued or for preoperating costs relating to a specific plant. The Board does not intend to imply, however, that a change in the estimated period to be benefited for a deferred cost (if justified by the facts) should not be recognized as a change in accounting estimate. The issuance of an Opinion of the Accounting Principles Board that creates a new accounting principle, that expresses a preference for an accounting principle, or that rejects a specific accounting principle is sufficient support for a change in accounting principle. The burden of justifying other changes rests with the entity proposing the change.[5]

General Disclosure—A Change in Accounting Principle

17. The nature of and justification for a change in accounting principle and its effect on income should be disclosed in the financial statements of the period in which the change is made. The justification for the change should explain clearly why the newly adopted accounting principle is preferable.

Reporting a Change in Accounting Principle

18. The Board believes that, although they conflict, both (a) the potential dilution of public confidence in financial statements resulting from restating financial statements of prior periods and (b) consistent application of accounting principles in comparative statements are important factors in reporting a change in accounting principles. The Board concludes that most changes in accounting should be recognized by including the cumulative effect, based on a retroactive computation, of changing to a new accounting principle in net income of the period of the change (paragraphs 19 to 26) but that a few specific changes in accounting principles should be reported by restating the financial statements of prior periods (paragraphs 27 to 30 and 34 to 35).

19. For all changes in accounting principle except those described in paragraphs 27 to 30 and 34 to 35, the Board therefore concludes that:

a. Financial statements for prior periods included for comparative purposes should be presented as previously reported.
b. The cumulative effect of changing to a new accounting principle on the amount of retained earnings at the beginning of the period in which the change is made should be included in net income of the period of the change (paragraph 20).

[5]The issuance of an industry audit guide by a committee of the American Institute of Certified Public Accountants also constitutes sufficient support for a change in accounting principle (paragraph 4).

c. The effect of adopting the new accounting principle on income before extraordinary items and on net income (and on the related per share amounts) of the period of the change should be disclosed.

d. Income before extraordinary items and net income computed on a pro forma basis[6] should be shown on the face of the income statements for all periods presented as if the newly adopted accounting principle had been applied during all periods affected (paragraph 21).

Thus, income before extraordinary items and net income (exclusive of the cumulative adjustment) for the period of the change should be reported on the basis of the newly adopted accounting principle. The conclusions in this paragraph are modified for various special situations which are described in paragraphs 23 to 30.

20. *Cumulative effect of a change in accounting principle.* The amount shown in the income statement for the cumulative effect of changing to a new accounting principle is the difference between (a) the amount of retained earnings at the beginning of the period of a change and (b) the amount of retained earnings that would have been reported at that date if the new accounting principle had been applied retroactively for all prior periods which would have been affected and by recognizing only the direct effects of the change and related income tax effect.[7] The amount of the cumulative effect should be shown in the income statement between the captions "extraordinary items" and "net income." The cumulative effect is not an extraordinary item but should be reported in a manner similar to an extraordinary item. The per share information shown on the face of the income statement should include the per share amount of the cumulative effect of the accounting change.

21. *Pro forma effects of retroactive application.* Pro forma effects of retroactive application (paragraph 19-d including footnote 6) should be shown on the face of the income statement for income before extraordinary items and net income. The earnings per share amounts (primary and fully diluted, as appropriate under APB Opinion No. 15, *Earnings per Share*) for income before extraordinary items and net

[6]The pro forma amounts include both (a) the direct effects of a change and (b) nondiscretionary adjustments in items based on income before taxes or net income, such as profit sharing expense and certain royalties, that would have been recognized if the newly adopted accounting principle had been followed in prior periods; related income tax effects should be recognized for both (a) and (b). Direct effects are limited to those adjustments that would have been recorded to restate the financial statements of prior periods to apply retroactively the change. The nondiscretionary adjustments described in (b) should not therefore be recognized in computing the adjustment for the cumulative effect of the change described in paragraph 20 unless nondiscretionary adjustments of the prior periods are actually recorded.

[7]See footnote 6.

income computed on a pro forma basis should be shown on the face of the income statement. If space does not permit, such per share amounts may be disclosed prominently in a separate schedule or in tabular form in the notes to the financial statements with appropriate cross reference; when this is done the actual per share amounts should be repeated for comparative purposes. Pro forma amounts should be shown in both current and future reports for all periods presented which are prior to the change and which would have been affected. Appendix A illustrates the manner of reporting a change in accounting principle. If an income statement is presented for the current period only, the actual and the pro forma amounts (and related per share data) for the immediately preceding period should be disclosed.

22. The principal steps in computing and reporting the cumulative effect and the pro forma amounts of a change in accounting principle may be illustrated by a change in depreciation method for previously recorded assets as follows:

a. The class or classes of depreciable assets to which the change applies should be identified. (A "class of assets" relates to general physical characteristics.)
b. The amount of accumulated depreciation on recorded assets at the beginning of the period of the change should be recomputed on the basis of applying retroactively the new depreciation method. Accumulated depreciation should be adjusted for the difference between the recomputed amount and the recorded amount. Deferred taxes should be adjusted for the related income tax effects.
c. The cumulative effect on the amount of retained earnings at the beginning of the period of the change resulting from the adjustments referred to in (b) above should be shown in the income statement of the period of the change.
d. The pro forma amounts should give effect to the pro forma provisions for depreciation of each prior period presented and to the pro forma adjustments of nondiscretionary items,[8] computed on the assumption of retroactive application of the newly adopted method to all prior periods and adjusted for the related income tax effects.

23. *Change in method of amortization and related disclosure.* Accounting for the costs of long-lived assets requires adopting a systematic pattern of charging those costs to expense. These patterns are referred to as depreciation, depletion, or amortization methods (all of which are referred to in this Opinion as methods of amortization). Various patterns of charging costs to expenses are acceptable for depreciable assets; fewer patterns are acceptable for other long-lived assets.

[8] See footnote 6.

24. Various factors are considered in selecting an amortization method for identifiable assets, and those factors may change, even for similar assets. For example, a company may adopt a new method of amortization for newly acquired, identifiable, long-lived assets and use that method for all additional new assets of the same class but continue to use the previous method for existing balances of previously recorded assets of that class. For that type of change in accounting principle, there is no adjustment of the type outlined in paragraphs 19-22, but a description of the nature of the change in method and its effect on income before extraordinary items and net income of the period of the change, together with the related per share amounts, should be disclosed. If the new method of amortization is however applied to previously recorded assets of that class, the change in accounting principle requires an adjustment for the cumulative effect of the change and the provisions of paragraphs 15 to 22 should be applied.

25. *Pro forma amounts not determinable.* In rare situations the pro forma amounts described in paragraph 21 cannot be computed or reasonably estimated for individual prior periods, although the cumulative effect on retained earnings at the beginning of the period of change can be determined. The cumulative effect should then be reported in the income statement of the period of change in the manner described in paragraph 20. The reason for not showing the pro forma amounts by periods should be explained because disclosing those amounts is otherwise required and is expected by users of financial statements.

26. *Cumulative effect not determinable.* Computing the effect on retained earnings at the beginning of the period in which a change in accounting principle is made may sometimes be impossible. In those rare situations, disclosure will be limited to showing the effect of the change on the results of operations of the period of change (including per share data) and to explaining the reason for omitting accounting for the cumulative effect and disclosure of pro forma amounts for prior years. The principal example of this type of accounting change is a change in inventory pricing method from FIFO to LIFO for which the difficulties in computing the effects of that change are described in paragraph 14-d.

27. *Special changes in accounting principle reported by applying retroactively the new method in restatements of prior periods.* Certain changes in accounting principle are such that the advantages of retroactive treatment in prior period reports outweigh the disadvantages. Accordingly, for those few changes, the Board concludes that the financial statements of all prior periods presented should be restated. The changes that should be accorded this treatment are: (a) a change from the LIFO method of inventory pricing to another method, (b) a change in the method of accounting for long-term construction-type contracts, and (c) a change to or from the "full cost" method of accounting which is used in the extractive industries.

28. The nature of and justification for a change in accounting principle described in paragraph 27 should be disclosed in the financial statements for the period the change was adopted. In addition, the effect of the change on income before extraordinary items, net income, and the related per share amounts should be disclosed for all periods presented. This disclosure may be on the face of the income statement or in the notes. Appendix B illustrates the manner of reporting a change in accounting principle retroactively by restating the statements of those prior periods affected. Financial statements of subsequent periods need not repeat the disclosures.

29. *Special exemption for an initial public distribution.* The Board concludes that in one specific situation the application of the foregoing provisions of this Opinion may result in financial statement presentations of results of operations that are not of maximum usefulness to intended users. For example, a company owned by a few individuals may decide to change from one acceptable accounting principle to another acceptable principle in connection with a forthcoming public offering of shares of its equity securities. The potential investors may be better served by statements of income for a period of years reflecting the use of the newly adopted accounting principles because they will be the same as those expected to be used in future periods. In recognition of this situation, the Board concludes that financial statements for all prior periods presented may be restated retroactively when a company first issues its financial statements for any one of the following purposes: (a) obtaining additional equity capital from investors, (b) effecting a business combination, or (c) registering securities. This exemption is available only once for changes made at the time a company's financial statements are first used for any of those purposes and is not available to companies whose securities currently are widely held.

30. The company should disclose in financial statements issued under the circumstances described in paragraph 29 the nature of the change in accounting principle and the justification for it (paragraph 17).

Reporting a Change in Accounting Estimate

31. The Board concludes that the effect of a change in accounting estimate should be accounted for in (a) the period of change if the change affects that period only or (b) the period of change and future periods if the change affects both. A change in an estimate should not be accounted for by restating amounts reported in financial statements of prior periods or by reporting pro forma amounts for prior periods.[9]

[9] Financial statements of a prior period should not be restated for a change in estimate resulting from later resolution of an uncertainty which may have caused the auditor to qualify his opinion on previous financial statements unless the change meets all the conditions for a prior period adjustment (paragraph 23 of APB Opinion No. 9).

32. A change in accounting estimate that is recognized in whole or in part by a change in accounting principle should be reported as a change in an estimate because the cumulative effect attributable to the change in accounting principle cannot be separated from the current or future effects of the change in estimate (paragraph 11). Although that type of accounting change is somewhat similar to a change in method of amortization (paragraphs 23 and 24), the accounting effect of a change in a method of amortization can be separated from the effect of a change in the estimate of periods of benefit or service and residual values of assets. A change in method of amortization for previously recorded assets therefore should be treated as a change in accounting principle, whereas a change in the estimated period of benefit or residual value should be treated as a change in accounting estimate.

33. *Disclosure.* The effect on income before extraordinary items, net income and related per share amounts of the current period should be disclosed for a change in estimate that affects several future periods, such as a change in service lives of depreciable assets or actuarial assumptions affecting pension costs. Disclosure of the effect on those income statement amounts is not necessary for estimates made each period in the ordinary course of accounting for items such as uncollectible accounts or inventory obsolescence; however, disclosure is recommended if the effect of a change in the estimate is material.

Reporting a Change in the Entity

34. The Board concludes that accounting changes which result in financial statements that are in effect the statements of a different reporting entity (paragraph 12) should be reported by restating the financial statements of all prior periods presented in order to show financial information for the new reporting entity for all periods.

35. *Disclosure.* The financial statements of the period of a change in the reporting entity should describe the nature of the change and the reason for it. In addition, the effect of the change on income before extraordinary items, net income, and related per share amounts should be disclosed for all periods presented. Financial statements of subsequent periods need not repeat the disclosures. (Paragraphs 56 to 65 and 93 to 96 of APB Opinion No. 16, *Business Combinations,* describe the manner of reporting and the disclosures required for a change in reporting entity that occurs because of a business combination.)

Reporting a Correction of an Error in Previously Issued Financial Statements

36. The Board concludes that correction of an error in the financial statements of a prior period discovered subsequent to their issuance (paragraph 13) should be

reported as a prior period adjustment. (Paragraph 18 of APB Opinion No. 9 covers the manner of reporting prior period adjustments.)

37. *Disclosure.* The nature of an error in previously issued financial statements and the effect of its correction on income before extraordinary items, net income, and the related per share amounts should be disclosed in the period in which the error was discovered and corrected. Financial statements of subsequent periods need not repeat the disclosures.

Materiality

38. The Board concludes that a number of factors are relevant to the materiality of (a) accounting changes contemplated in this Opinion and (b) corrections of errors, in determining both the accounting treatment of these items and the necessity for disclosure. Materiality should be considered in relation to both the effects of each change separately and the combined effect of all changes. If a change or correction has a material effect on income before extraordinary items or on net income of the current period before the effect of the change, the treatments and disclosures described in this Opinion should be followed. Furthermore, if a change or correction has a material effect on the trend of earnings, the same treatments and disclosures are required. A change which does not have a material effect in the period of change but is reasonably certain to have a material effect in later periods should be disclosed whenever the financial statements of the period of change are presented.

Historical Summaries of Financial Information

39. Summaries of financial information for a number of periods are commonly included in financial reports. The summaries often show condensed income statements, including related earnings per share amounts, for five years or more. In many annual reports to stockholders, the financial highlights present similar information in capsule form. The Board concludes that all such information should be prepared in the same manner (including the presentation of pro forma amounts) as that prescribed in this Opinion for primary financial statements (paragraphs 15 to 38) because the summaries include financial data based on the primary financial statements. In a summary of financial information that includes an accounting period in which a change in accounting principle was made, the amount of the cumulative effect of the change that was included in net income of the period of the change should be shown separately along with the net income and related per share amounts of that period and should not be disclosed only by a note or parenthetical notation.

EFFECTIVE DATE

40. The provisions of this Opinion are effective for fiscal years beginning after July 31, 1971. However, the Board encourages application of the provisions of this Opinion in reporting any accounting changes included in fiscal years beginning before August 1, 1971 but not yet reported in financial statements issued for the year of the change.

The Opinion entitled "Accounting Changes" was adopted by the assenting votes of twelve members of the Board. Messrs. Catlett, Halvorson, Harrington, Kessler, Luper, and Watt dissented.

Messrs. Catlett, Kessler and Luper dissent to this Opinion because they believe that when a change in accounting principles is made the financial statements for prior periods should be restated on the same basis as those for the current period. The Board has reached a similar conclusion in most previous Opinions, since such Opinions have encouraged or required retroactive treatment for recommended changes in accounting principles. They also believe that the cumulative adjustments applicable to prior periods arising from changes in accounting principles have no bearing upon the current results of operations and should not be included in the determination of net income for the current period. This Opinion recognizes that consistent use of accounting principles "enhances the utility of financial statements to users by facilitating analysis and understanding of comparative accounting data" and that changes in accounting principles should not be made unless the principle adopted is "preferable." Yet, when such changes are made, this Opinion places severe constraints on restatement and thus not only precludes "preferable" accounting for prior periods in many areas but also impairs the comparability of the financial statements.

Mr. Harrington and Messrs. Catlett, Kessler and Luper dissent to this Opinion because in their view the great divergence between the selective requirements for restatement in paragraphs 27, 29 and 34 and the general requirements for cumulative adjustments in paragraphs 19 and 24 is not based on any supportable rationale; and such general requirements will be confusing and will contribute far more to the dilution of public confidence in financial reporting than would the restatement of prior periods for all changes in accounting principles. Furthermore, Messrs. Catlett, Harrington and Luper are particularly concerned with the continuing tendency of the Board to attempt to eliminate alleged "abuses" by means of arbitrary rules and to use accounting requirements as a disciplinary tool rather than to establish standards for the most meaningful financial reports for investors and other users of financial statements. They believe that the cumbersome requirements of this Opinion will discourage improvements in accounting in numerous areas on which the Board will not issue Opinions for many years.

Mr. Halvorson dissents because he believes that all income and expense should be included in the income statement once and neither more nor less than once, and that this can really be achieved only if newly-adopted principles are applied prospectively. The cumulative adjustment required by the Opinion for most accounting changes ignores this cardinal tenet of reporting by effectively obscuring the result if the one-time inclusion is accommodated in the cumulative adjustment and completely negating the desired result when the cumulative adjustment requires duplication in the future of items already accounted for and reported in earlier periods. He believes that restatement ("actual" or pro forma) of information previously published in good faith will endanger the credibility of financial reporting and that availability of the cumulative-adjustment device will minimize the disciplinary effect that accounting has on the issuers of financial statements. It should be sufficient to report the dollar effect of a change (the "inconsistency") in the year of change, and in a multi-period statement including the year of change to disclose the principle applied in each of the several included periods. It is the further view of Mr. Halvorson that the required pro forma presentation for past years cannot properly report the operating results for such years as they would have been if the newly-adopted principle had then been used, because reported operating results themselves have a compelling influence on non-accounting operating decisions in such areas as pricing and methods of financing, and the effect of such decisions cannot be arithmetically reconstructed to reflect the effect of what might have been.

Mr. Watt dissents to this Opinion because its conclusions are not in accord with his view that the best presentation is one that does not require excessive interpretation by the financial statement user. He believes that, with respect to accounting changes, it is more important for statements presented in comparative form to be comparable in detail than for historical continuity to be retained there; such continuity is important and changes to amounts previously reported can be adequately reconciled in the notes to financial statements. Thus, the presumption should be that, with respect to accounting changes, retroactive restatement is most desirable wherever statements are presented in comparative form. The exception to this would be where the change relates to items whose carrying amount involves a substantial valuation judgment. Mr. Watt is in agreement with the conclusion in the Opinion that depreciation lives of assets are an element of the estimation process and changes therein should be applied prospectively. He believes, however, that depreciation method changes, although conceptually accounting changes, are inextricably tied to subjective judgment of the periods of exhaustion of the useful lives of assets and therefore the selection of a method is usually the result of a composite decision involving both methods and estimated useful lives. Thus, it is his view that all changes in depreciation methods should be reflected prospectively. Similarly, accounting changes relating to the amortization of depletable costs, goodwill, preoperating and research and development cost, etc. should be reflected prospectively. This view as it relates to pension accruals

is also consistent with that expressed in paragraph 47 of APB Opinion No. 8, *Accounting for the Cost of Pension Plans,* that a change in accounting method should be applied prospectively.

NOTES

Opinions of the Accounting Principles Board present the conclusions of at least two-thirds of the members of the Board, which is the senior technical body of the Institute authorized to issue pronouncements on accounting principles.

Board Opinions are considered appropriate in all circumstances covered but need not be applied to immaterial items.

Covering all possible conditions and circumstances in an Opinion of the Accounting Principles Board is usually impracticable. The substance of transactions and the principles, guides, rules, and criteria described in Opinions should control the accounting for transactions not expressly covered.

Unless otherwise stated, Opinions of the Board are not intended to be retroactive.

Council of the Institute has resolved that Institute members should disclose departures from Board Opinions in their reports as independent auditors when the effect of the departures on the financial statements is material or see to it that such departures are disclosed in notes to the financial statements and, where practicable, should disclose their effects on the financial statements (Special Bulletin, Disclosure of Departures from Opinions of the Accounting Principles Board, *October 1964). Members of the Institute must assume the burden of justifying any such departures.*

Appendix A

AN ILLUSTRATION OF REPORTING A CHANGE IN ACCOUNTING PRINCIPLE (PURSUANT TO PARAGRAPHS 19 TO 22)

41. ABC Company decides in 1971 to adopt the straight line method of depreciation for plant equipment. The straight line method will be used for new acquisitions as well as for previously acquired plant equipment for which depreciation had been provided on an accelerated method.

42. This illustration assumes that the direct effects are limited to the effect on depreciation and related income tax provisions and that the direct effect on inventories is not material. The pro forma amounts have been adjusted for the hypothetical effects of the change in the provisions for incentive compensation. The per share amounts are computed assuming that 1,000,000 shares of common stock are issued and outstanding, that 100,000 additional shares would be issued if all outstanding bonds (which are not common stock equivalents) are converted, and that the annual interest expense, less taxes, for the convertible bonds is $25,000. Other data assumed for this illustration are—

Year	*Excess of Accelerated Depreciation Over Straight Line Depreciation*	*Effects of Change Direct, Less Tax Effect*	*Pro forma (Note A)*
Prior to 1967	$ 20,000	$ 10,000	$ 9,000
1967	80,000	40,000	36,000
1968	70,000	35,000	31,500
1969	50,000	25,000	22,500
1970	30,000	15,000	13,500
Total at beginning of 1971	$250,000	$125,000	$112,500

43. The manner of reporting the change in two-year comparative statements is—

	1971	*1970*
Income before extraordinary item and cumulative effect of a change in accounting principle	$1,200,000	$1,100,000
Extraordinary item (description)	(35,000)	100,000
Cumulative effect on prior years (to December 31, 1970) of changing to a different depreciation method (Note A)	125,000	
Net Income	$1,290,000	$1,200,000
Per share amounts—		
Earnings per common share—assuming no dilution:		
Income before extraordinary item and cumulative effect of a change in accounting principle	$ 1.20	$1.10
Extraordinary item	(0.04)	0.10
Cumulative effect on prior years (to December 31, 1970) of changing to a different depreciation method	0.13	
Net income	$ 1.29	$1.20
Earnings per common share—assuming full dilution:		
Income before extraordinary item and cumulative effect of a change in accounting principle	$ 1.11	$1.02
Extraordinary item	(0.03)	0.09
Cumulative effect on prior years (to December 31, 1970) of changing to a different depreciation method	0.11	
Net income	$ 1.19	$1.11
Pro forma amounts assuming the new depreciation method is applied retroactively—		
Income before extraordinary item	$1,200,000	$1,113,500
Earnings per common share—assuming no dilution	$1.20	$1.11
Earnings per common share—assuming full dilution	$1.11	$1.04
Net income	$1,165,000	$1,213,500
Earnings per common share—assuming no dilution	$1.17	$1.21
Earnings per common share—assuming full dilution	$1.08	$1.13
(See accompanying note to the financial statements)		

NOTE A:

Change in Depreciation Method for Plant Equipment

Depreciation of plant equipment has been computed by the straight line method in 1971. Depreciation of plant equipment in prior years, beginning in 1954, was computed by the sum of the years digits method. The new method of depreciation was adopted to recognize . . . (state justification for change of depreciation method) . . . and has been applied retroactively to equipment acquisitions of prior years. The effect of the change in 1971 was to increase income before extraordinary item by approximately $10,000 (or one cent per share). The adjustment of $125,000 (after reduction for income taxes of $125,000) to apply retroactively the new method is included in income of 1971. The pro forma amounts shown on the income statement have been adjusted for the effect of retroactive application on depreciation, the change in provisions for incentive compensation which would have been made had the new method been in effect, and related income taxes.

44. The manner of reporting the change in five-year comparative statements is—

	1971	*1970*	*1969*	*1968*	*1967*
Income before extraordinary item and cumulative effect of a change in accounting principle	$1,200,000	$1,100,000	$1,300,000	$1,000,000	$800,000
Extraordinary item	(35,000)	100,000		40,000	
Cumulative effect on prior years (to December 31, 1970) of changing to a different depreciation method (Note A)	125,000				
Net income	$1,290,000	$1,200,000	$1,300,000	$1,040,000	$800,000
Earnings per common share—assuming no dilution:					
Income before extraordinary item and cumulative effect of change in accounting principle	$ 1.20	$1.10	$1.30	$1.00	$0.80
Extraordinary item	(0.04)	0.10		0.04	
Cumulative effect on prior years (to December 31, 1970) of changing to a different depreciation method	0.13				
Net income	$ 1.29	$1.20	$1.30	$1.04	$0.80

	1971	1970	1969	1968	1967
Earnings per common share—assuming full dilution:					
Income before extraordinary item and cumulative effect of change in accounting principle	$ 1.11	$1.02	$1.20	$0.93	$0.75
Extraordinary item	(0.03)	0.09		0.04	
Cumulative effect on prior years (to December 31, 1970) of changing to a different depreciation method	0.11				
Net income	$ 1.19	$1.11	$1.20	$0.97	$0.75
Pro forma amounts assuming the new depreciation method is applied retroactively:					
Income before extraordinary item	$1,200,000	$1,113,500	$1,322,500	$1,031,500	$836,000
Earnings per common share—assuming no dilution	$1.20	$1.11	$1.32	$1.03	$0.84
Earnings per common share—assuming full dilution	$1.11	$1.04	$1.23	$0.96	$0.78
Net income	$1,165,000	$1,213,500	$1,322,500	$1,071,500	$836,000
Earnings per common share—assuming no dilution	$1.17	$1.21	$1.32	$1.07	$0.84
Earnings per common share—assuming full dilution	$1.08	$1.13	$1.23	$1.00	$0.78

A note similar to Note A of this Appendix should accompany the five-year comparative income statement.

Appendix B

AN ILLUSTRATION OF REPORTING A SPECIAL CHANGE IN ACCOUNTING PRINCIPLE BY RESTATING PRIOR PERIOD FINANCIAL STATEMENTS (PURSUANT TO PARAGRAPHS 27 AND 28)

45. XYZ Company decides in 1971 to adopt the percentage of completion method in accounting for all of its long-term construction contracts. The company had used in prior years the completed contract method and had maintained records which are adequate to apply retroactively the percentage of completion method. The change in accounting principle is to be reported in the manner described in paragraphs 27 and 28 of this Opinion.

46. The direct effect of the change in accounting principle and other data assumed for this illustration are—

	Pre-tax Income Reported by		*Difference in Income*	
Year	*Percentage of Completion Method*	*Completed Contract Method*	*Direct*	*Less Tax Effect*
Prior to 1967	$1,800,000	$1,300,000	$ 500,000	$ 250,000
1967	900,000	800,000	100,000	50,000
1968	700,000	1,000,000	(300,000)	(150,000)
1969	800,000	600,000	200,000	100,000
1970	1,000,000	1,100,000	(100,000)	(50,000)
Total at beginning of 1971	5,200,000	4,800,000	400,000	200,000
1971	1,100,000	900,000	200,000	100,000
Total	$6,300,000	$5,700,000	$ 600,000	$ 300,000

The per share amounts are computed assuming that 1,000,000 shares of common stock are issued and outstanding, that 100,000 additional shares would be issued if all outstanding bonds (which are not common stock equivalents) are converted, and that the annual interest expense, less taxes, for the convertible bonds is $25,000.

47. The manner of reporting the change in two-year comparative statements is—

Income Statement:

	1971	*1970* *as adjusted (Note A)*
Income before extraordinary item	$ 550,000	$ 500,000
Extraordinary item (description)		(80,000)
Net Income	$ 550,000	$ 420,000
Per share amounts:		
Earnings per common share—assuming no dilution:		
Income before extraordinary item	$0.55	$0.50
Extraordinary item		(.08)
Net Income	$0.55	$0.42
Earnings per common share—assuming full dilution:		
Income before extraordinary item	$0.52	$0.47
Extraordinary item		(.07)
Net Income	$0.52	$0.40

Statement of Retained Earnings:

	1971	*1970* *as adjusted (Note A)*
Balance at beginning of year, as previously reported	$17,800,000	$17,330,000
	1971	*1970*
Add adjustment for the cumulative effect on prior years of applying retroactively the new method of accounting for long-term contracts (Note A)	200,000	250,000
Balance at beginning of year, as adjusted	$18,000,000	$17,580,000
Net income	550,000	420,000
Balance at end of year	$18,550,000	$18,000,000

(See accompanying note to the financial statements)

NOTE A:

Change in Method of Accounting for Long-Term Contracts

The company has accounted for revenue and costs for long-term construction contracts by the percentage of completion method in 1971, whereas in all prior years revenue and costs were determined by the completed contract method. The new method of accounting for long-term contracts was adopted to recognize . . . (state justification for change in accounting principle) . . . and financial statements of prior years have been restated to apply the new method retroactively. For income tax purposes, the completed contract method has been continued. The effect of the accounting change on income of 1971 and on income as previously reported for 1970 is—

Effect on—	*Increase (Decrease)*	
	1971	*1970*
Income before extraordinary item and net income	$100,000	$(50,000)
Earnings per common share—assuming no dilution	$0.10	($0.05)
Earnings per common share—assuming full dilution	$0.09	($0.05)

The balances of retained earnings for 1970 and 1971 have been adjusted for the effect (net of income taxes) of applying retroactively the new method of accounting.

48. A note to a five-year summary of financial statements should disclose the effect of the change on net income and related per share amounts for the periods affected in the following manner:

NOTE A:

Change in Method of Accounting for Long-Term Contracts

The company has accounted for revenue and costs for long-term construction contracts by the percentage of completion method in 1971, whereas in all prior years revenue and costs were determined by the completed contract method. The new method of accounting for long-term contracts was adopted to recognize . . . (state justification for change in accounting principle) . . . and financial statements of prior years have been restated to apply the new method retroactively. For income tax purposes, the completed contract method has been continued. The effect of the

accounting change on net income as previously reported for 1970 and prior years is—

	1970	*1969*	*1968*	*1967*
Net income as previously reported	$470,000	$300,000	$500,000	$400,000
Adjustment for effect of a change in accounting principle that is applied retroactively	(50,000)	100,000	(150,000)	50,000
Net income as adjusted	$420,000	$400,000	$ 350,000	$450,000
Per share amounts:				
Earnings per common share—assuming no dilution:				
Net income as previously reported	$ 0.47	$0.30	$ 0.50	$0.40
Adjustment for effect of a change in accounting principle that is applied retroactively	(0.05)	0.10	(0.15)	0.05
Net income as adjusted	$ 0.42	$0.40	$ 0.35	$0.45
Earnings per common share—assuming full dilution:				
Net income as previously reported	$ 0.45	$0.30	$ 0.47	$0.38
Adjustment for effect of a change in accounting principle that is applied retroactively	(0.05)	0.09	(0.13)	0.05
Net income as adjusted	$ 0.40	$0.39	$ 0.34	$0.43